

CHAPTER 13
RULES OF PROFESSIONAL CONDUCT

[Prior to 5/1/02, see 193A—Chapter 11]

193A—13.1(542) Definitions. The following definitions shall be applicable to the rules of this chapter.

“*Covered member*” means:

1. An individual on the attest engagement team;
2. An individual in a position to influence the attest engagement team;
3. A partner or manager who provides nonattest services to the attest client once the partner or manager has provided ten hours of nonattest services to the client within any fiscal year;
4. A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
5. The firm, including the firm’s employee benefit plan; or
6. An entity whose operating, financial, or accounting practice can be controlled by any of the individuals described in “1” through “5.”

“*Covered member’s immediate family*” means:

1. The covered member’s spouse (or spousal equivalent), and
2. The covered member’s dependents.

193A—13.2(542) Applicability.

13.2(1) The rules of professional conduct which follow rest upon the premise that the reliance of the public in general and of the business community in particular on sound financial reporting and on the implication of professional competence inherent in the authorized use of a legally restricted title relating to the practice of public accountancy imposes on persons engaged in such practice certain obligations both to their clients and to the public. These obligations, which the rules of professional conduct are intended to enforce where necessary, include the obligation to maintain independence of thought and action, to strive continuously to improve one’s professional skills, to observe applicable generally accepted accounting principles and generally accepted auditing standards, to promote sound and informative financial reporting, to hold the affairs of clients in confidence, and to maintain high standards of personal conduct in all matters affecting one’s fitness to practice public accountancy.

13.2(2) Acceptance of a certificate as a CPA or a license as an LPA to practice public accounting involves acceptance by the CPA or LPA of the obligations set forth in the preceding subrule and accordingly a duty to abide by the rules of professional conduct.

13.2(3) The rules of professional conduct are intended to have application to all kinds of professional services performed in the practice of public accountancy and to apply as well to all CPAs and LPAs whether or not engaged in the practice of public accountancy, except where the wording of a rule clearly indicates that the applicability is more limited.

13.2(4) A CPA or LPA who is engaged in the practice of public accountancy outside the United States will not be subject to discipline by the board for departing, with respect to such foreign practice, from any of the rules, so long as the CPA’s or LPA’s conduct is in accordance with the standards of professional conduct applicable to the practice of public accountancy in the country in which the CPA or LPA is practicing. However, even in such a case, if a CPA’s or LPA’s name is associated with financial statements in such manner as to imply that the CPA or LPA is acting as an independent public accountant and under circumstances that would entitle the reader to assume that United States practices are followed, the CPA or LPA will be expected to comply with subrules 13.4(2) and 13.4(3).

13.2(5) In the interpretation and enforcement of the rules of professional conduct, the board will give consideration, but not necessarily dispositive weight, to relevant interpretations, rulings and opinions issued by other state boards of accountancy and by appropriately authorized committees on ethics of professional organizations.

13.2(6) A CPA or LPA may be held responsible for compliance with the rules of professional conduct by all persons associated with the accountant in the practice of public accounting who are either under the accountant's supervision or are members, partners or shareholders in the accountant's practice.

13.2(7) A covered member's immediate family is also subject to these rules, except that:

a. Employment with the attest client is permitted if the family member is not in a "key position" which allows the person to influence the client's financial statements; or

b. A financial interest may be held through an attest client's employee benefit plan in certain instances if the covered member is not on the attest engagement team or in a position to influence the engagement.

193A—13.3(542) Independence, integrity and objectivity.

13.3(1) *Independence.* A CPA or LPA or firm of which a CPA or LPA is an owner, partner, officer, shareholder, member or manager shall not issue a report on financial statements of a client in such a manner as to imply that the CPA or LPA is acting as an independent public accountant with respect thereto unless the CPA or LPA is independent with respect to such client. Independence will be considered to be impaired if, for example:

a. During the period of the professional engagement, or at the time of expressing an opinion, a CPA, LPA or covered member:

(1) Had, or was committed to acquire, any direct or material indirect financial interest in the client; or was a trustee of any trust or executor or administrator of any estate if such trust or estate had, or was committed to acquire, any direct or material indirect financial interest in the client; or

(2) Had any joint closely held business investment with the client or any officer, director or principal stockholder which was material to the CPA, LPA, or covered member; or

(3) Had any loan to or from the client or any officer, director or principal stockholder thereof other than loans of the following kinds made by a financial institution under normal lending procedures, terms and requirements: loans which are not material in relation to the net worth of the CPA, LPA or covered member; home mortgages; and other secured loans, except those secured solely by a guarantee of the CPA, LPA or covered member.

b. During the period covered by the financial statements, during the period of the professional engagement, or at the time of expressing an opinion, the covered member:

(1) Was connected with the client as a promoter, underwriter or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee; or

(2) Was a trustee for any pension or profit-sharing trust of the client.

The foregoing examples are not intended to be all-inclusive.

13.3(2) *Integrity and objectivity.* A CPA or LPA shall not, in the performance of professional services, knowingly misrepresent facts, subordinate judgment to others, or allow professional judgment to be impaired by self-interest. In tax practice, however, a CPA or LPA may resolve doubt in favor of the client as long as there is reasonable support for this position.

13.3(3) *Commissions.* A CPA or LPA may accept a commission subject to the prohibitions set forth in Iowa Code section 542.13(15) and the restrictions set forth in these rules.

a. A CPA or LPA engaged in the practice of public accounting must act in the best interests of the client and shall not allow integrity, objectivity or professional judgment to be impaired by the self-interest a commission-based fee may create.

b. A CPA or LPA who anticipates receiving a commission in connection with the recommendation, referral or sale of a product or service must establish such procedures as are reasonably necessary to avoid the prohibitions set forth in Iowa Code section 542.13(15).

c. A CPA or LPA engaged in the practice of public accounting who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the CPA or LPA recommends, refers or sells a product or service to which the commission relates.

d. To ensure full and effective disclosure, a CPA or LPA shall substantially adhere to the following guidelines when recommending, referring or selling a product or service to which a commission relates:

(1) The disclosure shall be in writing, signed and dated by the person to whom a product or service is recommended, referred or sold, and a copy shall be provided to the client.

(2) The disclosure shall be made at or prior to the time the product or service is recommended, referred or sold.

(3) The disclosure shall be legible, clear and conspicuous, and on a separate form.

(4) A copy of the disclosure shall be retained by the CPA or LPA for as long as the CPA or LPA deems appropriate to the transaction; however, the board recommends a minimum of three years.

(5) In the event of a continuing engagement or series of related transactions involving similar products or services, one written disclosure may cover more than one recommendation, referral or sale as long as the disclosure is provided at least annually and is not misleading.

This rule does not prohibit payments for the purchase of all, or a material part, of an accounting practice, or retirement payments to persons formerly engaged in the practice of public accountancy, or payments to heirs or estates of such persons.

13.3(4) *Contingent fees.* A CPA or LPA may accept contingent fees as defined in rule 193A—1.1(542) subject to the prohibitions set forth in Iowa Code section 542.13(15) and restrictions set forth in these rules.

193A—13.4(542) Competence and technical standards.

13.4(1) *Competence.* A CPA or LPA shall not undertake any engagement for the performance of professional services which the accountant or accountant's firm cannot reasonably expect to complete with due professional competence, including compliance, where applicable, with subrules 13.4(2) and 13.4(3).

13.4(2) *Engagement standards.* CPAs or LPAs shall not permit their names to be associated with financial statements unless they have complied with the applicable generally accepted engagement standards. The board will consider the American Institute of Certified Public Accountants Professional Standards, SAS, and SSARS as sources of interpretations of generally accepted engagement standards.

13.4(3) *Accounting principles.* A CPA or LPA shall not state in the CPA's or LPA's report on financial statements that the financial statements are presented in conformity with generally accepted accounting principles if such financial statements contain any departure from such accounting principles which has a material effect on the financial statements taken as a whole, unless the CPA or LPA can demonstrate that by reason of unusual circumstances the financial statements would otherwise have been misleading. In such cases the accountant's report must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle(s) would result in a misleading statement. The board will consider the pronouncements issued by the Financial Accounting Standards Board and its predecessor entities as sources of interpretations of generally accepted accounting principles.

13.4(4) *Standards and procedures or other requirements in governmental audits.* A CPA shall not accept a governmental audit unless the CPA undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations in addition to generally accepted auditing standards unless the CPA discloses in the accountant's report the fact that such requirements were not followed and the reasons therefor.

13.4(5) Requirements of governmental bodies, commissions, or other regulatory agencies. Many governmental bodies, commissions, or other regulatory agencies have established requirements such as audit standards, guides, rules and regulations that CPAs are required to follow in preparation of financial statements or related information, such as management's discussion or analysis, in performing attest or similar services for entities subject to the jurisdiction of the governmental bodies, commissions, or regulatory agencies. For example, the Securities and Exchange Commission, General Accounting Office, office of auditor of state, state insurance commission and other regulatory agencies have established such requirements.

A CPA shall not prepare financial statements or related information for the purposes of reporting to such bodies, commissions, or regulatory agencies, unless the CPA agrees to follow the requirements of such organizations in addition to generally accepted auditing standards, where applicable, unless the CPA discloses in the financial statements or the accountant's report that such requirements were not followed.

13.4(6) Negligence in the preparation of financial statements or records. A CPA or LPA shall be considered negligent if, in conjunction with the preparation of financial statements or records, any of the following infractions occur:

- a. The CPA or LPA makes or permits another to make materially false or misleading entries in financial statements or records; or
- b. The CPA or LPA fails to correct financial statements that are materially false or misleading when the member has the authority to record an entry; or
- c. The CPA or LPA signs, or permits or directs another to sign, a document containing materially false or misleading information.

13.4(7) Forecasts. A CPA shall not in the performance of professional services permit the CPA's name to be used in conjunction with any forecast of future transactions in a manner which may lead to the belief that the accountant vouches for the achievability of the forecast.

193A—13.5(542) Responsibilities to clients.

13.5(1) Confidential client information. A CPA or LPA shall not, without the consent of the accountant's client, disclose any confidential information pertaining to the client obtained in the course of performing professional services. This rule does not:

- a. Relieve a CPA or LPA of any obligations under subrules 13.4(2) and 13.4(3); or
- b. Affect in any way a CPA's or LPA's obligation to comply with a validly issued subpoena or summons enforceable by order of a court; or
- c. Prohibit disclosures in the course of a peer review of a CPA's or LPA's professional services; or
- d. Preclude a CPA or LPA from responding to any inquiry made by the board or any investigative or disciplinary body established by law or formally recognized by the board. Members of the board and professional practice reviewers shall not disclose any confidential information which comes to their attention from a CPA or LPA in disciplinary proceedings or otherwise in carrying out their responsibilities, except that they may furnish such information to an investigative or disciplinary body of the kind referred to above.

13.5(2) Records. A CPA or LPA shall furnish to a client or former client, upon request made within a reasonable time:

- a. Any accounting or other records belonging to, or obtained from or on behalf of, the client which a CPA or LPA removed from the client's premises or received for the client's account, including a copy of all disclosures required by subrule 13.3(4). The accountant may make and retain copies of such documents when they form the basis for work done by a CPA or LPA.

b. A copy of the working papers of the CPA or LPA to the extent that such working papers include records which would ordinarily constitute part of the client's books and records and are not otherwise available to the client or easily reconstructed by the client or successor CPA or LPA. Examples of such work include depreciation schedules and LIFO inventory work papers.

13.5(3) Reasonable time. A "reasonable time" for furnishing clients or former clients the records described in subrule 13.5(2) is dependent upon the facts and circumstances. A CPA or LPA should strive to be as responsive as the situation requires in light of the possible adverse consequence of delay to the client or former client. As a general rule of thumb, the CPA or LPA should provide such records within ten business days of a written request.

13.5(4) Nonpayment of fees. A CPA or LPA shall not withhold the records described in subrule 13.5(2) from a client or former client based on nonpayment of fees. However, if a CPA or LPA has already issued a tax return, report or other record to a client or former client, the CPA or LPA may, but is not required to, request payment of outstanding fees prior to providing a second copy of such records.

13.5(5) Documentation and retention. A CPA or LPA shall comply with all professional standards applicable to particular engagements including, but not limited to, standards adopted by recognized standards-setting bodies such as the Public Company Accounting Oversight Board (PCAOB), the Comptroller General of the United States, the Audit Standards Board or other applicable regulatory body.

13.5(6) Retention period of attest documentation and working papers. Unless otherwise required by applicable law, a CPA firm shall retain attest documentation and attest working papers for seven years, measured by the report date. If the CPA firm is notified within the seven-year period of a board investigation or disciplinary proceeding, criminal investigation or proceeding, or other governmental investigation or proceeding, which stems from or relates to the documents at issue, such attest documentation and attest working papers shall not be destroyed until the firm has been notified in writing that the investigation or proceeding has been closed or otherwise fully resolved, or seven years from the report date, whichever period is longer.

193A—13.6(542) Other responsibilities and practices.

13.6(1) Acts discreditable. A CPA or LPA shall not commit any act that reflects adversely on the CPA's or LPA's fitness to engage in the practice of public accountancy. The board may consider discipline by any other agency or jurisdiction when determining probable cause to take action against a CPA or LPA for acts discreditable.

13.6(2) Advertising. A CPA or LPA shall not use or participate in the use of any form of public communication having reference to professional services that contains a false, fraudulent, misleading, deceptive or unfair statement or claim. A false, fraudulent, misleading, deceptive or unfair statement or claim includes but is not limited to a statement or claim which:

- a.* Contains a misrepresentation of fact; or
- b.* Is likely to mislead or deceive because it fails to make full disclosure of relevant facts; or
- c.* Contains any testimonial or laudatory statement, or other statement or implication that the CPA's or LPA's professional services are of exceptional quality; or
- d.* Is intended to likely create false or unjustified expectations of favorable results; or
- e.* Implies educational or professional attainments or licensing recognition not supported in fact; or
- f.* States or implies that the CPA or LPA has received formal recognition as a specialist in any aspect of the practice of public accountancy, if this is not the case; or
- g.* Represents that professional services can or will be competently performed for a stated fee when this is not the case, or makes representations with respect to fees for professional services that do not disclose all variables affecting the fees that will in fact be charged; or
- h.* Contains other representations or applications that in reasonable probability will cause an ordinarily prudent person to misunderstand or be deceived.

13.6(3) Solicitation. A CPA or LPA shall not by any direct personal communication solicit an engagement to perform professional services:

- a. If the communication would violate subrule 13.6(2) if it were a public communication; or
- b. By the use of coercion, duress, compulsion, intimidation, threats, overreaching, or harassing conduct; or
- c. If the solicitation communication contains proposals which would be in violation of rule 193A—13.3(542) or 193A—13.4(542).

13.6(4) Acting through others. A CPA or LPA shall not permit others to carry out on the CPA's or LPA's behalf, either with or without compensation, acts which, if carried out by the CPA or LPA, would violate the rules of professional conduct.

13.6(5) Misleading firm names. A firm name is misleading within the meaning of Iowa Code section 542.13 if, among other things:

- a. The firm name implies the existence of a corporation when the firm is not a corporation.
- b. The firm name implies the existence of a partnership when there is not a partnership, e.g., "Smith & Jones, CPAs" or "Smith and Jones, LPAs."
- c. The CPA firm name includes the name of a person who is not a CPA if the title "CPAs" or "Certified Public Accountants" is included in the firm name.
- d. The LPA firm name includes the name of a person who is not an LPA if the title "LPAs" or "Licensed Public Accountants" is included in the firm name.
- e. The firm name contains any wording that would be a violation of subrule 13.6(2).

13.6(6) Communications. A CPA or LPA shall, when requested, respond to communications from the board within 30 days of the mailing of such communications by certified mail.

13.6(7) Reporting requirements. In addition to any other reporting requirement in Iowa Code chapter 542 or these rules, a CPA or LPA shall notify the board within 30 days of:

a. Imposition upon the CPA or LPA of discipline including, but not limited to, censure, reprimand, sanction, probation, civil penalty, fine, consent decree or order, suspension, revocation, or modification of a license, certificate, permit or practice rights by:

- (1) The SEC, PCAOB, IRS (by the director of practice); or
- (2) Another state board of accountancy for cause other than failure to pay a professional fee by the due date or failure to meet the continuing education requirements of another state board of accountancy; or
- (3) Any other federal or state agency regarding the CPA's or LPA's conduct while rendering professional services; or

b. Occurrence of any matter reportable that must be reported by the CPA to the PCAOB pursuant to Sarbanes-Oxley Section 102(b)(2)(f) and PCAOB rules and forms adopted pursuant thereto;

c. Any judgment, award or settlement of a civil action or arbitration proceeding in which the CPA or LPA was a party if the matter included allegations of gross negligence, violation of specific standards of practice, fraud, or misappropriation of funds in the practice of accounting; provided however, licensed firms shall notify the board regarding civil judgments, settlements or arbitration awards directly involving the firm's practice of public accounting in this state; or

d. Criminal charges, deferred prosecution or conviction or plea of no contest to which the licensee is a defendant if the crime is:

- (1) Any felony under the laws of the United States or any state of the United States or any foreign jurisdiction; or
- (2) A misdemeanor if an essential element of the offense is dishonesty, deceit or fraud.

13.6(8) *Firm's duty to report.* The CPA or LPA designated by each firm in accordance with Iowa Code section 542.7(3)“b”(1) or 542.8(12)“b”(1) and these rules as the licensee responsible for the proper registration of the firm shall report any matter reportable under this rule to which a non-licensee owner with a principal place of business in this state is a party.

These rules are intended to implement Iowa Code chapters 272C and 542.

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